

**REPORT OF THE AUDIT OF THE
ADAIR COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ADAIR COUNTY CLERK

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Adair County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$9,897 from the prior year, resulting in excess fees of \$189,766 as of December 31, 2009. Revenues decreased by \$339,759 from the prior year and expenditures decreased by \$349,656.

Debt Obligations:

Total debt principal as of December 31, 2009, was \$17,284. Future collections of \$17,284 are needed over the next five years to pay all debt principal and interest.

Report Comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Improve Controls Over Accounts Receivable

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Adair County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2010 on our consideration of the Adair County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Improve Internal Controls Over Accounts Receivable

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Adair County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

March 11, 2010

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services		\$	65,077
Fiscal Court			5,018
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	877,374	
Usage Tax		1,513,597	
Tangible Personal Property Tax		1,121,035	
Other-			
Marriage Licenses		5,538	
Dog Licenses		590	
Lien Fees		11,574	
Deed Transfer Tax		30,915	
Delinquent Tax		85,456	3,646,079
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		18,673	
Real Estate Mortgages		30,682	
Chattel Mortgages and Financing Statements		53,541	
Powers of Attorney		3,148	
Affordable Housing Trust		22,878	
All Other Recordings		7,995	
Charges for Other Services-			
Title Applications		5,560	
Copywork		4,830	
Notary Fees		1,520	
Refunds/Overpayments		1,411	150,238
Other:			
Miscellaneous			57
Interest Earned			6,731
Total Revenues			3,873,200

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
 SHEILA BLAIR, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 662,656

Usage Tax 1,467,571

Tangible Personal Property Tax 395,645

Licenses, Taxes, and Fees-

Delinquent Tax 9,889

Delinquent Tax 18,962

Affordable Housing Trust 22,878 \$ 2,577,601

Payments to Fiscal Court:

Tangible Personal Property Tax 86,221

Delinquent Tax 9,708

Deed Transfer Tax 29,369

Dog Tags 590 125,888

Payments to Other Districts:

Tangible Personal Property Tax 594,498

Delinquent Tax 44,407 638,905

Payments to Sheriff

995

Payments to County Attorney

12,239

Operating Expenditures:

Personnel Services-

Deputies' Salaries 159,887

Part-Time Salaries 16,268

Overtime 8,646

Election Pay 450

Employee Benefits-

Employer's Share Social Security 18,480

Contracted Services-

Equipment & Maintenance 24,523

Supplies and Materials-

Office Supplies 639

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
 SHEILA BLAIR, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges-

Conventions and Travel	\$	2,656	
Dues		1,284	
Postage		11	
Miscellaneous		236	
Notary Fees		29	
Check Orders		171	
Refunds		1,844	
Cleaning and Office Repairs		1,500	
Bad Debt Expense		427	
Tax Bill Preparation		<u>3,623</u>	\$ 240,674

Debt Service:

Lease Purchases	<u>6,800</u>
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Total Expenditures	<u>\$ 3,603,102</u>
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Net Revenues	270,098
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Less: Statutory Maximum	74,086	
Expense Allowance	3,600	
Training Incentive Benefit	<u>2,646</u>	<u>80,332</u>

Excess Fees Due County for 2009	189,766
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Payment to Fiscal Court - January 12, 2010	<u>180,000</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 9,766</u></u>
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ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.5 percent for the first six months and 16.16 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Adair County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Adair County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ADAIR COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2009
 (Continued)

Note 4. Lease Agreement

The office of the County Clerk is committed to the following lease agreements with Bamill, Inc. for copy machines and maintenance.

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Balance 12-31-09</u>
Copier	\$ 279	36 months	07-15-2009	\$
Copier	\$ 412	60 months	08-01-2013	\$ 17,284

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Adair County Clerk for the year ended December 31, 2009, and have issued our report thereon dated March 11, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adair County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Improve Internal Controls Over Accounts Receivable



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following significant deficiency to be a material weakness:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Adair County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 11, 2010

COMMENTS AND RECOMMENDATIONS

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

A lack of adequate segregation of duties exists over receipts and disbursements. The County Clerk and deputies collect cash and each deputy balances their own cash drawer. The deputies rotate the responsibility of compiling the daily checkout sheet, posting to the receipts ledger, and preparing the deposit. The County Clerk prepares and signs checks, posts to the ledger, and prepares the monthly bank reconciliations. She also prepares weekly, monthly, and quarterly reports.

A segregation of duties over daily checkout procedures, deposit preparation, the preparation of checks, and bank reconciliations are essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the County Clerk should separate the duties involved in receiving cash, preparing bank deposits, check preparation, reconciliation of bank records to the ledgers, and preparation of reports. If these duties cannot be separated, strong oversight over these areas should be provided. If the County Clerk does implement oversight, instead of segregating duties, this should be documented on the appropriate source document.

County Clerk's Response: No response.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The County Clerk Should Improve Internal Controls Over Accounts Receivable

The County Clerk has a lack of internal controls over accounts receivable. In addition, there is no written policy for the allowance or collection of accounts receivable. The County Clerk allows automobile dealerships, attorneys, and others to charge services on account. The deputy who allows the charge is responsible for recording the receivable in the charge book and the collection of accounts receivable. No one verifies the validity of the charge or verifies collection of the charge. We also noted the County Clerk does not require outstanding charges to be settled by year-end.

During testing, we noted supporting documentation is not maintained with the daily checkout sheets for charges and charges paid. The only support maintained for accounts receivable is the manual charge books. However, we noted instances of accounts receivable not recorded in the charge books or marked paid. If all charges are not recorded or marked paid, there is no way to determine who the charge was for and that all charges were collected. Also, without supporting documentation auditors could not verify if the charges were valid. We also noted individuals were allowed to charge and did not pay within the same month avoiding late fees and penalties. We recommend the County Clerk require a) proper authorization for accounts receivable charges and collections, b) reconciliation of accounts receivable by someone independent of accounts receivable charges and collections, and c) the adoption of a written policy over accounts receivable that details allowable charges and collection procedures. Furthermore, we recommend the County Clerk maintain an outstanding receivables list at year-end and attempt to collect all receivables.

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

The County Clerk Should Improve Internal Controls Over Accounts Receivable (Continued)

County Clerk's Response: No response.

